HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Montréal CMA

Canada Mortgage and Housing Corporation

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Change of pace for the economy

During the first nine months of the year, just over 1,000 jobs were lost on average in the Montréal census metropolitan area (CMA). This factor, combined with an increase in the labour force, caused the unemployment rate to rise from 6.9 per cent to 7.4 per cent over the same period. This slight downturn of the labour market mainly affected part-time jobs, which registered a decrease of 1.9 per cent. Full-time jobs, for their part, rose by 0.3 per cent for the period from January to September. For 2008 overall, we forecast a small decline in employment as observed since the beginning of the year. In 2009, despite the anticipated decrease in residential construction, several non-residential projects announced by the different levels of governments, such as the replacement of the Turcot Interchange and the modernization of Notre-Dame Street, will boost employment growth in the construction sector. However, the level of activity in the manufacturing sector will moderate. For example, Bombardier recently announced that the company was revising its business plane sales forecasts downwards given the turmoil on the financial markets. In addition, consumer spending is bound to slow down, which will lead to a decline in employment in sectors like trade and services. Consequently, for 2009, we forecast that employment in the Montréal CMA will stagnate at close to the 2008 level.

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one-year posted mortgage rate will be in the 6.00-6.75 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

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Demographic factors will also help mitigate the effects of the economic slowdown on housing demand. In fact, according to the latest Statistics Canada data, net migration in the Montréal CMA was significantly on the rise between 2006 and 2007, increasing from 13,246 to 21,690 people over this period. Also, the higher immigration targets set by the Government of Quebec will support an increase in international migration in the Montréal CMA. And, migration movements out West should decrease slightly, on account of the rise in the cost of living in that part of the country. This situation will contribute to reducing the net flow of people leaving the CMA for another part of the province, as has been the case for a few years now. As a result, net migration in the CMA will reach 23,000 people in 2008 and then keep rising to attain 25,000 people in 2009.

Resale market to slow moderately

After reaching a peak in 2007, activity will slow down on the resale market in 2008 and 2009. Employment stagnation will contribute to curbing demand for existing homes in the Montréal area. However, the growth in prices will be slower for existing homes than for new homes, which will widen the price gap between them and consequently prompt more buyers to turn to the resale market.

Transactions registered in the Greater Montréal Real Estate Board (GMREB) MLS® system should fall by 3 per cent this year and then by 4 per cent in 2009. In all, 42,200 sales of existing properties should be recorded in 2008 and 40,500, in 2009, compared to 43,538 in 2007. While slightly less active, the resale market will still remain strong. The sales levels forecast for 2008 and 2009 will exceed the annual average of 39,000 transactions recorded for the period from 2002 to 2007.

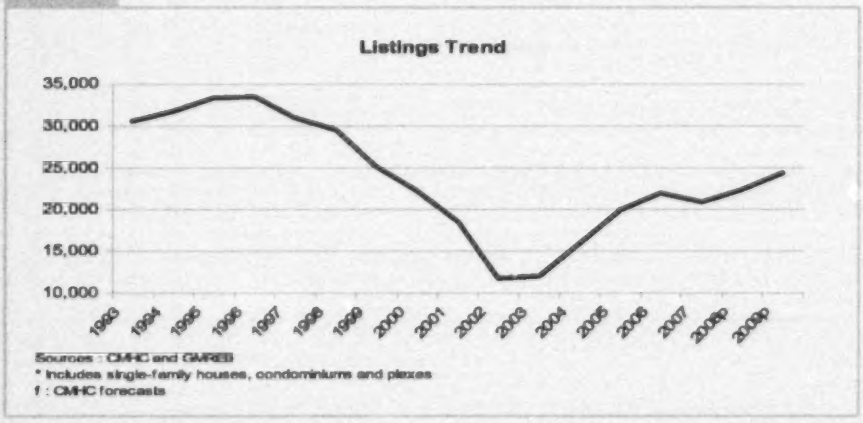
Condominiums to manage better

Condominiums—the only housing type that will register an increase in sales in 2008—will sustain a less significant decline in demand than single-family houses or plexes 2009. Affordable housing types, such as condominiums, and homes located in less expensive geographic sectors, are managing better. Having recorded the strongest growth among the three types of properties in 2007 (+20 per cent), condominiums will post another increase in sales this year (+4 per cent), while single-family houses and plexes will incur equivalent decreases (-6 per cent). For 2009, we forecast that transactions of condominiums, single-family houses and plexes will fall by 2 per cent, 4 per cent and 6 per cent, respectively. In all, 12,300 condominiums will change hands in 2008 and 12,100, in 2009. Single-family houses will still remain the most sold housing type on the market, with 25,100 transactions expected this year and 24,000 more, in 2009. For plexes, the rental housing vacancy rate will rise next year, which will make buying a property of this type somewhat less appealing, such that resales will fall from 5,117 units in 2007 to 4,800 in 2008 and then to 4,400 in 2009.

Slightly more supply on the market

Currently, the supply of homes is growing. In fact, listings started to rise again in the second quarter of 2008, and there is every indication that they will end the year up by 7 per cent over 2007. As well, we forecast that they will maintain this momentum in 2009, with an increase of 9 per cent. At the end of 2008, an average of 22,300 active listings per month will have been registered in the GMREB MLS® system for the Montréal CMA, and this level will be

Figure 1



24,300 in 2009. Even if listings in the Montréal area market is up over previous years, inventories still remain significantly (about 30 per cent) below the level recorded in 1996 (see figure 1).

On account of the strong demand for condominiums, they will be the only housing type for which listings will decrease in 2008. Listings of this type will fall by 3 per cent this year, to an average level of 6,400 properties per month, but are expected to remain stable in 2009. As for listings of single-family houses and plexes, they will rise both this year and next year. In the case of single-family houses, listings will increase by 9 per cent (to 12,800 units) this year and by 14 per cent (to 14,400 units) in 2009. Since plex listings are now at a relatively low level, they will go up more substantially in 2008 and 2009, with hikes of 18 per cent and 15 per cent, respectively. There will be an average of 3,100 plex listings per month in the MLS® system in 2008 and 3,500, in 2009. This rise in listings will be due in part to a decline in demand as a result of the economic slowdown. These conditions will bring about an increase in listing periods and, therefore, in active listings.

Market gradually becoming balanced

Given that sales will fall and listings will rise, the market will ease slightly over the coming year. Average resale prices will continue to increase, but more slowly than in recent years. Prices will go up by an average of 5 per cent in 2008 and 4 per cent in 2009 for both single-family houses and plexes while, for condominiums, the hikes will be somewhat more modest, at 4 per cent in 2008 and 3 per cent in 2009. A higher proportion of condominium sales will take place in the suburbs and in the less expensive sectors on the Island of Montréal, which will contribute to limiting the growth in prices. For the market overall, prices will therefore rise by 4 per cent in 2008 and by 3 per cent in 2009. Still, on the whole, the market will remain favourable to sellers in the short term and gradually ease toward more balanced conditions in 2009.

The average selling prices of single-family houses, condominiums and plexes will reach $266,000, $221,600 and $345,500, respectively, in 2008. Next year, the average prices should rise to $276,000 for single-family homes, $228,200 for condominiums and $359,300 for plexes.

Residential construction to stay strong despite anticipated downturn

After posting a gain of 2 per cent in 2007, residential construction in the Montréal area will decline this year and next. However, like on the resale market, the level of activity will stay high. In all, 22,300 new dwellings will get under way this year, down by 4 per cent from the 23,322 starts recorded in 2007. In 2009, 20,800 starts are expected, for a decrease almost twice as significant as in 2008 (-7 per cent). The climate of weak economic growth and uncertainty will contribute to slowing the pace of residential construction. The rise in the vacancy rate, especially in the retirement home market segment, the increase in supply on the resale market and the growing price gap between new and existing homes are all factors that will limit residential construction, particularly in 2009. It should be noted that the number of months required to absorb the new unoccupied units and the units under construction—the duration of supply—is currently up slightly over the end of 2007. However, this indicator is still below ten months, which is conducive to a high level of activity.

Affordable homes will again stand out

Overall, total starts will fall this year. However, the opposite will hold true for more affordable housing types, which are expected to register increases in starts. After having exploded in 2007, with a gain of 35 per cent, semi-detached and row housing starts will maintain their momentum this year and rise by 14 per cent to 2,200 units. Condominium starts will also increase this year, although to a lesser extent. From nearly one year at the end of 2006, the duration of supply decreased throughout 2007, having declined by half at the end of the year. This indicator has since risen slightly and now stands at eight months. As a result, 8,000 new condominium units will be started in 2008, for a gain of 9 per cent over 2007.

In 2009, these two housing types will again stand out. Semi-detached and row home starts will stay at the same level as in 2008, while condominium starts will register a smaller decrease than the declines that will be recorded for single-detached home building and rental

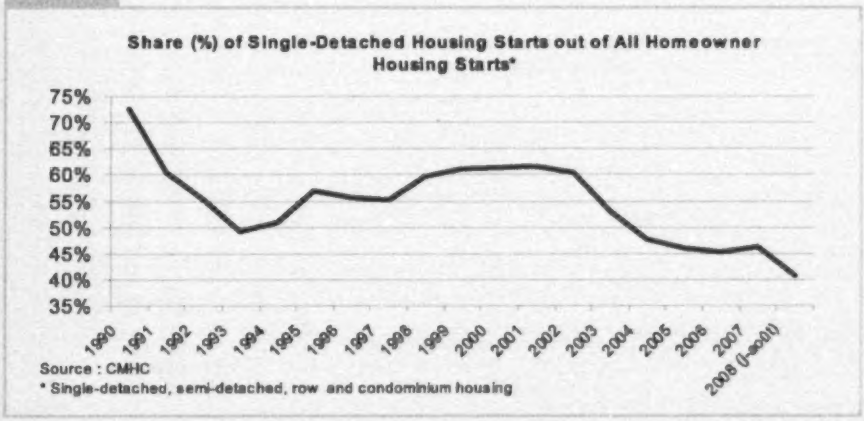
housing construction. In all, 7,700 new condominium units will be started next year, or 4 per cent fewer than in 2008.

The downward trend in single-detached home starts, which began a few years ago, will continue. Because these houses are more expensive, and also because the population is aging and households are getting smaller, the need for more spacious homes is less significant than before. As well, the stagnation of the job market expected for the coming year will slow down demand for new houses, especially higher priced ones. Single-detached housing starts will therefore fall by 13 per cent this year and by 7 per cent next year. In all, 7,000 single-detached houses will be added to the Montréal CMA housing stock this year and then 6,500 more, next year. In line with the trend observed in recent years, most new single-detached homes will be started in the suburbs, particularly on the North Shore and the South Shore, in part, because the average prices of new houses are lower there (by about 20 per cent) than on the Island of Montréal or in Laval.

Newly built single-detached houses are the most expensive housing type on the Montréal area market. The average absorption price of such homes was $331,792 during the first nine months of 2008, for an increase of 8 per cent over the same period in 2007. While three quarters of all new freehold homes are still single-detached houses, absorption of dwellings of this type decreased by 6 per cent from the first three quarters of 2007. It should further be mentioned that the growing availability of single-family houses on the resale market, as evidenced by the rise in listings in the MLS® system, is giving buyers a little more choice. These factors will work in favour of a slower growth in single-detached home prices in 2009. In 2008, the price of new single-detached houses should rise by 8 per cent over 2007, reaching $334,937, and then increase by 5 per cent in 2009, to $351,684.

As mentioned earlier, more affordable homes are, and will remain, popular. Semi-detached houses, a less expensive housing type, therefore seem to have a promising future in the short term. The popularity of this type of property is not only bringing about a rise in starts in this segment but also resulting in a greater average price hike than the increases registered for the other housing categories. While, in the first three quarters of 2008, the price of existing single-family houses rose by 6 per cent and the price of single-detached homes, by 8 per cent, the price of new semi-detached homes increased by 12 per cent, compared to the first three quarters of 2007. Given this significant hike in their price, it should be expected that new semi-detached houses might lose some of their competitive edge. The price gap[1] between new semi-detached houses and existing homes, which stood at 18 per cent in the third quarter of 2007 (with existing homes being less expensive), reached 15 per cent in the third quarter of this year. Also, since the fourth quarter of 2007, the price gap between new single-detached and semi-detached houses has been tending to narrow, given the greater increase in the price of new semi-detached homes. This price gap was 42 per cent in the third quarter of 2008, down from 46 per cent in the third quarter of 2007. The popularity of semi-detached homes should therefore lead to an above-average price hike. According to our forecasts, the price of new semi-detached houses will rise by 13 per cent to $241,170 in 2008 and then by 10 per cent to $265,287 in 2009.

Figure 2



Rental housing construction will be calm in 2008 and 2009

There is every indication that, after registering a gain of 7 per cent in 2007, particularly on account of the strong activity in the retirement home segment, rental housing construction in the Montréal area will be calmer this year and in 2009. For the first nine months of the year, rental housing starts registered in particular a decrease of 38 per cent. While this market segment remains strong, starts of apartments for seniors were down by 30 per cent for the period from January to September, compared to a year earlier. In addition to the increase in the vacancy rate, the absorption of new units intended for senior clients is on a downward trend and inventories are on the rise. Consequently, the duration of supply is relatively long, as there appears to be enough supply to meet demand for about a year and a half. As a result, the retirement home market dynamics will affect the level of rental housing starts. The pace of rental housing construction will slow down by 14 per cent this year and by 16 per cent in 2009. In all, there will be 5,100 rental housing starts in the Montréal metropolitan area in 2008 and 4,300, in 2009.

Vacancy rate to rise gradually

While the improvement in net migration will benefit demand for rental housing, this will not be sufficient to fill the rental dwellings that are being vacated by renters leaving to access homeownership. Even if rental housing construction will slow down in 2008 and 2009, supply will still keep growing. The vacancy rate will rise, but gradually, from 2.9 per cent in 2007 to 3.1 per cent in 2008 and then to 3.3 per cent in 2009. Consequently, the average rent for two-bedroom apartments will edge up by just 2 per cent in 2008 and 2009, reaching $660 this year and $675 next year.

Forecast Summary
Montréal CMA
Fall 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market*							
S.I.A.® /MLS® Sales	38,654	38,792	43,543	42,200	-3.1	40,500	-4.0
S.I.A.® /MLS® Active Listings	19,876	21,918	20,900	22,300	6.7	24,300	9.0
S.I.A.® /MLS® Average Price ($)	223,184	236,968	251,504	266,000	5.0	276,000	3.8
New Home Market							
Starts:							
Single-Detached	8,544	7,793	8,013	7,000	-12.6	6,400	-8.6
Multiples	16,773	15,020	15,220	15,300	0.5	13,700	-10.5
Semi-Detached	970	758	922		s.o.		s.o.
Row/Townhouse	793	665	1,034		s.o.		s.o.
Apartments	15,010	13,597	13,264		s.o.		s.o.
Starts - Total	25,317	22,813	23,233	22,300	-4.0	20,100	-9.9
Average Price ($):							
Single-Detached	276,017	300,314	310,127	334,937	8.0	351,684	5.0
Semi-Detached	201,682	205,223	213,425	241,170	13.0	265,287	10.0
New Housing Price Index (% chg.)	616.0	636.0	647.0	660.0	-	675.0	-
Rental Market							
October Vacancy Rate (%)	5.1	6.3	6.9	6.8	-	6.3	-
Two-bedroom Average Rent (October) ($)	6	7	7	7	-	7	-
Economic Overview							
Mortgage Rate (1 year) (%)	16519.00	13246.00	21690.00	23000.00	6.04	25000.00	8.70
Mortgage Rate (5 year) (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Annual Employment Level	0	0	0	1,898,795	-0.2	1,899,000	0.0
Employment Growth (%)	0.0	0.0	0.0	-0.2	0.0	0.0	0.0
Unemployment rate (%)	0.0	0.0	0.0	7.4	0.0	7.7	0.0
Net Migration (1)	0	0	21,690	23,000	6.0	25,000	8.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), GMREB, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

* Includes single-detached homes, condominiums and plexes
The publication of S.I.A.® /MLS® data is made possible thanks to the cooperation of the Greater Montréal real estate Board.
(1) 2007 migration data is forecasted

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